

JACKSON HOUSING COMMISSION  
JACKSON, MICHIGAN

FINANCIAL STATEMENTS  
FOR THE YEAR ENDED MARCH 31, 2006  
AND  
REPORTS ON INTERNAL CONTROL AND  
COMPLIANCE

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Jackson Housing Commission	County Jackson
Fiscal Year End March 31, 2006	Opinion Date September 25, 2006	Date Audit Report Submitted to State November 11, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

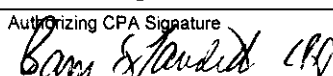
YES ☒ NO ☐

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☒ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☒ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	Internal Control and Compliance Letters	
Certified Public Accountant (Firm Name) Barry E. Gaudette, CPA, PC		Telephone Number (231) 946-8930	
Street Address 1107 E. Eighth Street		City Traverse City	State MI
		Zip 49686	
Authorizing CPA Signature 		Printed Name Barry E. Gaudette, CPA	
		License Number 11050	

JACKSON HOUSING COMMISSION  
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## INTRODUCTION

***Independent Auditor's Report***

Board of Commissioners  
Jackson Housing Commission  
Jackson, Michigan

I have audited the accompanying financial statements of the business-type activities of the Jackson Housing Commission, Michigan, a component unit of the City of Jackson, as of and for the year ended March 31, 2006, which collectively comprise the Housing Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Jackson Housing Commission, Michigan, as of March 31, 2006, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Jackson Housing Commission  
Independent Auditor's Report  
Page Two

In accordance with *Government Auditing Standards*, I have also issued my report dated September 25, 2006, on my consideration of Jackson Housing Commission, Michigan's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of my audit.

The management's discussion and analysis comparison information on pages 3 through 7, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming an opinion on the financial statements that comprise Jackson Housing Commission, Michigan's basic financial statements. The accompanying financial data schedule is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Housing Commission. The accompanying schedule of expenditures of federal awards, is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Jackson Housing Commission, Michigan. The combining financial statements, schedule of expenditures of federal awards, and the financial data schedule have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Sandy E. VandeLinde, CPA, PC*

September 25, 2006

JACKSON HOUSING COMMISSION  
JACKSON, MICHIGAN  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)**  
March 31, 2006  
=====

The Jackson Housing Commission, created in 1946, by the City of Jackson provides housing to meet the community's needs for affordable low-income housing. As management of the Housing Commission, I offer readers this narrative overview and analysis of the financial activities of the Housing Commission for the fiscal year ended March 31, 2006. I encourage readers to consider the information presented here in conjunction with the Housing Commission's financial statements.

**Financial Highlights**

The financial statements for Jackson Housing Commission consists of four programs. The first is owned housing, consisting of 553 units of public housing, the second is the capital funding program, the third is the housing choice voucher program consisting of 475 qualifying low-income residents for rental housing, and the Housing Commission also has a Homeownership Program.

Jackson Housing Commission had total revenues of \$5,000,638 that includes \$1,219,780 in rental payments and \$3,701,205 in federal assistance. Total revenues decreased by \$458,259 from the prior year, in part, because of the federal assistance decreasing by \$472,220 from the prior year. Total operating expenses were \$5,340,058, that includes \$944,972 in administrative expenses, \$458,993 in utilities, \$943,078 in ordinary maintenance and operation, \$177,886 in general expenses and \$2,053,484 in housing assistance payments, and \$604,236 in depreciation expense. The operating expenses increased by \$94,536, in part, because of increased administrative and maintenance expenses over the prior year.

The assets of the Housing Commission exceeded its liabilities at the close of the most recent fiscal year by \$10,153,928. The Housing Commission's total net assets decreased by \$339,420 from the prior year. The decrease can be attributed, in part, to The Housing Choice Voucher program revenues decreasing by a net of \$387,872 from the prior year.

Total assets of the Housing Commission were \$10,834,105, of which \$575,941 consisted of current assets and \$250,337 of current liabilities. There was a net decrease in total assets of \$433,044 from the prior year. The decrease is due, in part, because of a decrease in HUD funding.

## Financial Highlights (continued)

### **Statement of Management Operations**

The Jackson Housing Commission presents this fiscal year that ended March 31, 2006, Statement of Management Operations. In general, the Commission believes it has completed its fiscal year with the financial resources necessary to successfully complete its ongoing mission of providing housing, and housing opportunities, to low and moderate income families in the City and County of Jackson, Michigan.

#### **1. Analysis of Overall Financial Position and Results of Operations.**

- a. **Public Housing.** The Commission's public housing program increased overall income by \$1,387 compared to the previous year. Overall rental income was \$39,055, or 3.3% over budget. Interest income was again, almost negligible in that capital reserves are insufficient, and interest rates somewhat low, in order to realize any real income from investments. While overall actual expenses were some \$161,000 greater than last year, they were only \$20,220 over budget. The principle cause for higher expenditures, and the differential over income this year, was again due to some unanticipated contractual costs and increased utility rates (though the latter was mitigated by the Commission's Energy Performance Contract). Tenant Services expenses increased over the prior year principally due to the expiration of HUD Resident Opportunity-Self Sufficiency Grants. The Commission has applied for renewal of one of the grants and expects to be funded in October, 2006.
- b. **Section 8 Program.** The Commission continued its reduction in Housing Assistance Payments by its reduction of Housing Assistance Payment Standards back to 100% of Fair Market rents from the HUD permitted 110%. Section 8 Administrative Staff maintained a voucher "lease up rate" at a monthly average 97.3%. Administrative program expenses were higher than budgeted (as anticipated because of reduced administrative fees); however, there are adequate administrative reserves to meet shortages for at least the next two years.

#### **2. Analysis of Balances and Transactions of Individual Funds.**

There were no significant changes in fund balances or fund net assets that would significantly affect fund balances for future use.

**3. Variations Between Original and Final Budget Amounts.**

See response to 1, above.

**4. Capital Asset and Long Term Debt Activity**

The Commission's Energy Performance Contract with Water and Energy Savings Corporation of St. Pete, Florida, requires repayment of principal and interest on an Energy Performance Loan taken out by the City of Jackson on the Commission's behalf, and payment of 15% of the utility cost savings to WESCO for contract administration for twelve years from the loan's inception. Savings realized from the project is designed to be more than adequate to repay the loan and administration costs, and that has been the experience to date.

**5. Current Facts, Decisions, or Conditions Effect on Net Assets or Results of Operations.**

In March, 2006, because of significant reductions in HUD operating subsidy, the Commission determined to require the Commission's Director of Family Services Programs take early retirement, and the lay off of the Family Services Coordinator, one Housing Aide and one Maintenance Aide to cut payroll and fringe benefit costs to help meet expenses. Effected personnel's duties were distributed among remaining staff. Further, prospective pay increases to staff were delayed to October 1, 2006.

On March 31, 2006, the Commission sold the first of 50 scattered site single family homes under its Section 5(h) Home Ownership Program. Since that date two more have been sold and an additional two are scheduled to be sold in September, 2006. With the continuation of home sales the overall effect on net assets will alter the Commission's housing assistance programs significantly. It is anticipated that all fifty units should be sold in the next two years. Proceeds will go toward development of other housing assistance resources.

There are no other known current facts, decisions, or conditions that would result in a significant effect on net assets or results of operations.

Questions and comments regarding this Management Discussion and Analysis may be directed to:

Phillip M. Fracker, PHM  
Executive Director  
301 Steward Avenue  
Jackson, Michigan 49201

## Overview of the Financial Statements

The financial statements included in this annual report are those of a special-purpose government engaged only in a business-type activity. The following statements are included:

- \* Statement of Net Assets - reports on the Housing Commission's current financial resources with capital and other assets and other liabilities.
- \* Statement of Revenues, Expenses, and Changes in Fund Net Assets - reports the Housing Commission's operating and non-operating revenues, by major source along with operating and non-operating expenses and capital contributions.
- \* Statement of Cash Flows - reports the Housing Commission's cash flows from operating, investing, capital, and non-capital activities.

## Financial Analysis of the Housing Commission

The following combined condensed balance sheets show a summary of changes for the years ended March 31, 2006 and 2005.

	<u>2006</u>	<u>2005</u>	<u>Net Change</u>
Current assets	\$ 575,941	\$ 1,044,305	\$ ( 468,364)
Restricted cash	20,310	17,674	2,636
Property and equipment	<u>10,237,854</u>	<u>10,205,170</u>	<u>32,684</u>
Total assets	<u>\$ 10,834,105</u>	<u>\$ 11,267,149</u>	<u>\$ ( 433,044)</u>
Current liabilities	\$ 250,337	\$ 255,036	\$ ( 4,699)
Noncurrent liabilities	<u>429,840</u>	<u>518,765</u>	<u>( 88,925)</u>
Total liabilities	<u>680,177</u>	<u>773,801</u>	<u>( 93,624)</u>
Net assets:			
Invested in capital assets, net of related debt	9,910,451	9,838,310	72,141
Unrestricted	<u>243,477</u>	<u>655,038</u>	<u>( 411,561)</u>
Total net assets	<u>10,153,928</u>	<u>10,493,348</u>	<u>( 339,420)</u>
Total liabilities and net assets	<u>\$ 10,834,105</u>	<u>\$ 11,267,149</u>	<u>\$ ( 433,044)</u>

**Financial Analysis of the Housing Commission (continued)**

The following table summarizes the Statement of Revenues, Expenses and Changes in Net Assets of the Housing Commission for the years ended March 31, 2006 and 2005.

	<u>2006</u>	<u>2005</u>	<u>Net Change</u>
<b>Operating revenues:</b>			
Dwelling rent	\$1,219,780	\$1,216,260	\$ 3,520
Nondwelling rent	<u>10,056</u>	<u>12,188</u>	<u>( 2,132)</u>
Total operating revenues	<u>1,229,836</u>	<u>1,228,448</u>	<u>1,388</u>
<b>Operating expenses:</b>			
Administration	944,972	790,360	154,612
Tenant services	125,493	84,873	40,620
Utilities	458,993	407,210	51,783
Ordinary maintenance and operation	943,078	847,648	95,430
Protective services	8,987	10,366	( 1,379)
General expenses	177,886	250,926	( 73,040)
Interest expense	22,929	25,405	( 2,476)
Extraordinary maintenance		29,880	( 29,880)
Casualty losses		64,543	( 64,543)
Housing assistance payments	2,053,484	2,120,929	( 67,445)
Depreciation	<u>604,236</u>	<u>613,382</u>	<u>( 9,146)</u>
Total operating expenses	<u>5,340,058</u>	<u>5,245,522</u>	<u>94,536</u>
<b>Non-operating revenue:</b>			
Interest income	6,113	6,753	( 640)
Operating grants	3,057,119	3,389,485	( 332,366)
Capital grants	644,086	783,940	( 139,854)
Other income	<u>63,484</u>	<u>50,271</u>	<u>13,213</u>
Total nonoperating revenue	<u>3,770,802</u>	<u>4,230,449</u>	<u>( 459,647)</u>
<b>Change in Net Assets</b>	<u><u>\$ ( 339,420)</u></u>	<u><u>\$ 213,375</u></u>	<u><u>\$ ( 552,795)</u></u>

## FINANCIAL STATEMENTS

JACKSON HOUSING COMMISSION  
COMBINED STATEMENT OF NET ASSETS  
March 31, 2006  
=====

**ASSETS**

Current Assets:	
Cash	\$ 439,308
Accounts receivable-tenants	79,309
Allowance for bad debts	( 7,579)
Prepaid expenses and other assets	<u>64,903</u>
Total Current Assets	<u>575,941</u>
Restricted cash	<u>20,310</u>
Property, Plant, and Equipment:	
Buildings	20,453,219
Equipment	578,789
Construction in progress	<u>1,579,588</u>
	22,611,596
Less: accumulated depreciation	<u>(12,373,742)</u>
Net Property, Plant, and Equipment	<u>10,237,854</u>
Total Assets	<u>\$ 10,834,105</u>

See notes to financial statements

JACKSON HOUSING COMMISSION  
COMBINED STATEMENT OF NET ASSETS (CONTINUED)  
March 31, 2006  
=====

**LIABILITIES and NET ASSETS**

Current Liabilities:

Bank overdraft	\$ 74,008
Accounts payable	5,677
Tenant security deposit liability	88,630
Accrued expenses	15,674
Accrued liabilities-other	21,385
Deferred revenues	6,333
Current portion of long-term debt	<u>38,630</u>

Total Current Liabilities	<u>250,337</u>
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Noncurrent Liabilities:

Long-term debt, net of current	288,773
Accrued compensated absences	<u>141,067</u>

Total Noncurrent Liabilities	<u>429,840</u>
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Total Liabilities	<u>680,177</u>
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Net Assets:

Invested in capital assets, net of related debt	9,910,451
Unrestricted net assets	<u>243,477</u>

Total Net Assets	<u>10,153,928</u>
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Total Liabilities and Net Assets	<u>\$ 10,834,105</u>
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See notes to financial statements

JACKSON HOUSING COMMISSION  
**COMBINED STATEMENT OF REVENUES, EXPENSES,  
 AND CHANGES IN NET ASSETS**  
 Year Ended March 31, 2006  
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**OPERATING REVENUES:**

Dwelling rent	\$ 1,219,780
Non-dwelling rent	<u>10,056</u>

Total operating revenues	<u>1,229,836</u>
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**OPERATING EXPENSES:**

Administration	944,972
Tenant services	125,493
Utilities	458,993
Ordinary maintenance and operation	943,078
Protective services	8,987
General expenses	177,886
Interest expense	22,929
Housing assistance payments	2,053,484
Depreciation	<u>604,236</u>

Total operating expenses	<u>5,340,058</u>
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Operating income(loss)	<u>(4,110,222)</u>
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**NONOPERATING REVENUES:**

Investment interest income	6,113
Other income	63,484
Capital grants	644,086
Operating grants	<u>3,057,119</u>

Total nonoperating revenues	<u>3,770,802</u>
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Change in net assets	( 339,420)
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Prior period adjustments, equity transfers and correction of errors	62,144
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Net assets, beginning	<u>10,431,204</u>
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Net assets, ending	<u>\$10,153,928</u>
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See notes to financial statements

JACKSON HOUSING COMMISSION  
**COMBINED STATEMENT OF CASH FLOWS**  
 Year Ended March 31, 2006  
 =====

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Cash received from dwelling and nondwelling rents	\$ 1,211,661
Cash payments to other suppliers of goods and services	(3,215,655)
Cash payments to employees for services	(1,550,984)
Cash payments for in lieu of taxes	<u>( 115,417)</u>
Net cash (used) by operating activities	<u>(3,670,395)</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:**

Adjustments	36,810
Tenant security deposits	( 19,427)
Operating grants	3,440,586
Other revenue	<u>63,484</u>
Net cash provided by noncapital financing activities	<u>3,521,453</u>

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:**

Long-term debt principal payments	( 14,123)
Capital grants	644,086
Payments for capital acquisitions	<u>( 636,920)</u>
Net cash (used) by capital and related financing activities	<u>( 6,957)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Receipts of interest and dividends	<u>6,113</u>
Net cash provided by investing activities	<u>6,113</u>

Net increase(decrease) in cash	( 149,786)
Cash, beginning	<u>609,404</u>
Cash, ending	<u>\$ 459,618</u>

JACKSON HOUSING COMMISSION  
**COMBINED STATEMENT OF CASH FLOWS (CONTINUED)**  
Year Ended March 31, 2006  
=====

**RECONCILIATION OF CASH AND CASH EQUIVALENTS  
PER STATEMENT OF CASH FLOWS TO THE BALANCE  
SHEET:**

Cash	\$	439,308
Restricted cash		<u>20,310</u>
Cash and cash equivalents per balance sheet	\$	<u><u>459,618</u></u>

**SCHEDULE RECONCILING OPERATING INCOME  
TO NET CASH FLOW FROM OPERATING  
ACTIVITIES:**

Operating income(loss)		\$(4,110,222)
Adjustments to reconcile operating (loss) to net cash(used in) operating activities:		
Depreciation		604,236
Bad debt allowance		6,765
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable-tenants	(	9,386)
Prepaid expenses	(	64,903)
Increase (decrease) in liabilities:		
Bank overdraft		25,183
Accounts payable		622
Accrued compensated absences	(	55,884)
Accrued payments in lieu of taxes	(	59,454)
Deferred revenues	(	8,789)
Other current liabilities		<u>1,437</u>
Net cash (used) by operating activities		<u><u>\$(3,670,395)</u></u>

See notes to financial statements

JACKSON HOUSING COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
March 31, 2006  
=====

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of Jackson Housing Commission (the Housing Commission) have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Housing Commission's accounting policies are described below.

**The Reporting Entity**

The Jackson Housing Commission is a component unit of the City of Jackson, a Michigan home rule city. The Housing Commission is a Public Housing Agency created by the City of Jackson on February 26, 1946, consisting of a five member board appointed by the City Manager and charged with the responsibility to provide and service housing to meet the community's needs for affordable low-income housing. These financial statements include all of the resources and activities of the Jackson Housing Commission over which the Housing Commission exercises operational control or which have financial significance to the Housing Commission. The Housing Commission has no component units and is not responsible for any jointly governed organizations.

**Grants and Other Intergovernmental Revenues**

The Housing Commission has entered into contracts with the U.S. Department of Housing and Urban Development (HUD). Under Contract C-3005, the Housing Commission constructed, maintains and operates 553 units of subsidized housing in the City of Jackson, Michigan. The Housing Commission manages a Housing Choice Voucher program of subsidies for 475 qualifying low-income residents for rental housing. The Housing Commission receives an annual operating subsidy determined under a performance formula for units owned by the Housing Commission and an administrative fee based on the number of households it assists under its Housing Choice Voucher program.

The Housing Commission also has a Homeownership Program.

**Fund Financial Statements**

The Housing Commission only has *business-type activities*, which rely to a significant extent on fees and charges for support. The fund financial statements include the Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets and the

## Statement of Cash Flows.

The Housing Commission is considered one single Enterprise Fund and does not have any governmental activities.

### **Fund Accounting**

The accounts of the Housing Commission are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, equity, revenues, and expenses. The Housing Commission's fund structure includes only proprietary funds. Under generally accepted accounting principles, proprietary funds are grouped into two broad categories - enterprise and internal service funds. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered through user charges; or (b) where laws or regulations require that the activity's costs of providing services including capital costs (such as depreciation or debt service) be recovered with fees and charges rather than with taxes and similar revenues. All of the Housing Commission's funds are operated as enterprise type proprietary funds whereby costs of services are to be recovered through user charges or subsidies from other governmental units.

### **Basis of Accounting**

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus. The Housing Commission's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

Under the economic resources measurement focus, all assets and all liabilities (whether current or noncurrent) are included in the balance sheets of the individual funds. Their reported net assets are segregated into invested capital assets and unrestricted net asset components. Operating statements present increases (revenues) and decreases (expenses) in net assets.

Under the accrual basis of accounting, all revenues are recorded when earned, regardless of when received, and all expenses are recorded when a liability is created, regardless of when paid.

In accordance with Governmental Accounting Standards Board Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, Jackson Housing Commission has elected to apply only those Financial Accounting Standards Board Statements issued prior to November 30, 1989 to its proprietary funds.

### **Cash and Cash Equivalents**

For purposes of the statement of cash flows, the Housing Commission considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

### **Insurance**

The premiums on all major insurance policies are charged to prepaid insurance and amortized over the life of the policy.

### **Budgets and Budgetary Accounting**

The Housing Commission is required under each of its HUD contracts to adopt an annual operating budget which must be approved by HUD. Budgetary data and comparison of actual and planned performance is reported directly to HUD based on specific program reporting requirements.

### **Receivables**

All receivables are reported at their net value, reflecting where appropriate, by the estimated portion that is expected to be uncollectible. The Housing Commission estimates the uncollectible portion of tenant rents as a percentage of gross tenant rents using prior collection experience.

### **Short-term Interfund Receivables/Payables**

During the course of operations, numerous transactions occur between individual funds. Receivables and payables arising from these transactions are classified as "due from other funds" and "due to other funds" on the statement of net assets.

### **Fixed Asset Capitalization**

Fixed assets with a cost to acquire or construct of \$25 or more are capitalized and depreciated over their estimated useful lives. Depreciation is provided on a straight-line basis using the following estimate of useful lives:

Land improvements	15 - 20 years
Buildings	40 years
Building improvements	20 years
Nondwelling structures	10 years
Furniture, equipment and machinery	7 years

### **Net Assets**

The Housing Commission classifies its net assets as follows:

- a. Invested in capital assets net of related debt represents all fixed assets acquired by the Housing Commission (both pre-FY 2001 and post-FY 2001) reduced by accumulated depreciation and related capital projects debt issued to purchase those assets.
- b. Unrestricted net assets indicate that portion of net assets which is available for use in future periods.

#### **Operating Revenues and Expenses**

The Housing Commission includes in operating revenues resources that are derived or received from exchange transactions. Resources derived principally from non-exchange transactions are excluded from operating income. Operating expenses include the cost of providing services, excluding depreciation. Depreciation, amounts expended for capital additions and amounts expended for retirement-of-debt are excluded from operating expenses. Depreciation expense is charged to invested capital assets rather than unrestricted net assets.

#### **Use of Estimates**

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of management estimates. The Housing Commission uses estimates of useful lives of its fixed assets and other estimates in preparing its financial statements. Actual results may differ from the Housing Commission's estimates.

#### **Vacation and Sick Leave**

The Housing Commission allows permanent employees to accumulate the following compensated absences:

- \* Vacation time, beginning April 1, 2001, employees may carry a maximum additional two weeks vacation time over their authorized allocation in any one fiscal year.
- \* Sick pay is earned at a rate of one day per month and can accumulate up to a maximum of one hundred-eighty (180) days. Upon retirement only, employees will be paid an amount equal to 50% of compensation for unused sick leave.
- \* Personal days are awarded to those employees who demonstrate excellent work attendance by awarding a "personal day" of leave for each quarter of perfect attendance. Personal days are not accumulative, and, therefore, must be taken during the quarter following the award.

The amount of accumulated benefits at March 31, 2006, was \$156,740, and is recorded as a liability in the applicable funds.

### Post Employment Benefits

The provision for pension cost is recorded on an accrual basis, and the Commission's policy is to fund pension costs as they accrue.

### Income Taxes

As a component unit of a Michigan home rule city, the Housing Commission is exempt from federal and state income taxes. The Housing Commission has no unrelated business income.

### **NOTE 2: DEPOSITS, INVESTMENTS AND CREDIT RISK**

The Housing Commission maintains cash and investment accounts in the Low Rent Program and Housing Choice Voucher funds. Landlord checks are processed through the Housing Choice Voucher account. All other receipts and disbursements are processed through the Low Rent Program accounts.

#### Deposits

At year-end, the carrying amount of the Housing Commission's deposits were \$457,018 and the bank balance was \$483,879 of which \$373,992 was covered by federal depository insurance and \$109,887 were collateralized by securities held by its agent in the Housing Commission's name. The Housing Commission has \$2,000 in petty cash, \$400 in change fund, \$200 in coin changer fund on hand, respectively.

#### Investments

The Housing Commission did not have any investments as of March 31, 2006.

*Interest Rate Risk* - The Housing Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit Risk* - The Housing Commission's investment policy approves the following securities and deposit accounts: U.S. Treasury bills, U.S. Treasury certificates, notes and bonds, certificate of deposits, commercial business savings accounts, money market accounts, obligations which are lawful investments for fiduciary and trust funds under the jurisdiction of the United States Government, Series E savings bonds and Series H savings bonds.

The Housing Commission shall deposit excess monies in the general fund and all other operating fund accounts in time, savings, or share accounts with banks or other institutions, to the extent that all unsecured deposits or accounts are insured by: the Federal Deposit Insurance Corporation (FDIC), National Credit Union Share

Insurance Fund (NCUSIF), or State Insurance plans which are approved by the United States Comptroller of the currency as an eligible depository of trust funds of National Banks, respectively.

All excess monies over the insured limits of the financial institution or banks, the Housing Commission shall obtain collateralization of excess funds at 100% of the principal value. Such collateralization shall be in the form of U.S. Treasury Notes or Bonds in the name of the Housing Commission held in trust by the financial institution or bank. The Housing Commission may choose collateralization in the following form and percentages:

- |                                     |            |
|-------------------------------------|------------|
| 1. U.S. Treasury Notes              | - 100%; or |
| 2. U.S. Treasury Notes and/or Bonds | - 75% and  |
| 3. Mortgage Backed Securities       | - 25%      |

In any such case the collateralization shall be no less than 100% of value of the funds in all accounts. The financial institution shall provide a statement of the collateralization at a minimum once every quarter to the Housing Commission.

The Housing Commission has no investment policy that would further limit its investment choices.

*Concentration of Credit Risk* - The Housing Commission places no limit on the amount the Housing Commission may invest in any one issuer. All of the Housing Commission's investments are reported in the Enterprise Fund.

A reconciliation of cash as shown on the statement of net assets is as follows:

Cash on hand	\$ 2,600
Carrying amount of deposits	<u>457,018</u>
Total	<u>\$ 459,618</u>
Cash and cash equivalents:	
Enterprise activities	\$ 560,487
Enterprise activities - checks written in excess of deposits	<u>(100,869)</u>
Total	<u>\$ 459,618</u>

Restricted cash is comprised of escrow balances for the Family Self Sufficiency Program (FSS) in the Housing Choice Vouchers Program.

**NOTE 3: RECEIVABLES AND PAYABLES****Tenant Accounts Receivable**

Tenant accounts receivable are recorded at gross amount and reduced by the estimated amount uncollectible. At March 31, 2006, the receivables were \$79,309 with \$7,579 estimated as uncollectible. Bad debt expense was \$14,344.

**Inter-fund Receivables, Payables, and Transfers**

Interfund receivables and payables are recorded as "due from other programs" and "due to other programs".

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
Low Rent Program	\$ 26,465	Housing Choice Voucher Program	\$ 26,465
	<u>\$ 26,465</u>		<u>\$ 26,465</u>

The capital fund program transferred \$140,959 to the Low Rent Program during the fiscal year ended March 31, 2006.

**NOTE 4: CAPITAL ASSETS**

Capital asset activity for the year ended March 31, 2006 was as follows:

	<u>Balance 03/31/05</u>	<u>Additions/ Transfers</u>	<u>Retirements/ Transfers</u>	<u>Balance 03/31/06</u>
<b>Housing Choice Voucher Program</b>				
Furniture, equip. and machinery- administration	\$ 33,341	\$	\$	\$ 33,341
	33,341	<u>\$</u>	<u>\$</u>	33,341
Less accumulated depreciation	<u>( 33,341)</u>	<u>\$</u>		<u>( 33,341)</u>
Total	<u>\$</u>			<u>\$</u>

	<u>Balance</u> <u>03/31/05</u>	<u>Additions/</u> <u>Transfers</u>	<u>Retirements/</u> <u>Transfers</u>	<u>Balance</u> <u>03/31/06</u>
<b>Low Rent Program</b>				
Buildings	\$20,453,219	\$	\$	\$20,453,219
Furniture, equip. & machinery - dwellings	273,658	9,289		282,947
Furniture, equip. & machinery - administration	<u>316,469</u>	<u>2,887</u>	<u>56,855</u>	<u>262,501</u>
	21,043,346	<u>\$ 12,176</u>	<u>\$ 56,855</u>	20,998,667
Less accumulated depreciation	<u>(11,793,020)</u>	<u>\$( 604,236)</u>	<u>\$ 56,855</u>	<u>(12,340,401)</u>
Total	<u>\$ 9,250,326</u>			<u>\$ 8,658,266</u>
<b>Capital Fund Program</b>				
Construction in progress	<u>\$ 954,844</u>	<u>\$ 624,744</u>	<u>\$</u>	<u>\$ 1,579,588</u>
<b>Combined Totals</b>				<u>\$10,237,854</u>

**NOTE 5: INVESTED IN CAPITAL ASSETS**

Changes in invested in capital assets (formerly contributed capital) in the enterprise fund type for the year ended March 31, 2006, consist of the following:

	<u>Invested in</u> <u>Capital Assets</u>
Balance, beginning	\$ 9,838,310
Investment in fixed assets, net of depreciation paid for from operations net of depreciation.	<u>72,141</u>
Balance, ending	<u>\$ 9,910,451</u>

These reclassifications are investments in fixed assets, net of depreciation paid for from operations and related debt.

**NOTE 6: LONG-TERM DEBT**

An installment purchase agreement was signed and dated September 20, 2000 by and between the City of Jackson(City) and the Jackson Housing Commission(JHA) with the Water & Energy Savings Corporation(WESC) of Lake Lure, North Carolina and the National

City Bank(Bank) of Michigan/Illinois, Lansing, Michigan as the assignee.

The City agreed to purchase and WESC agreed to sell and provide the City and JHA certain water and energy conservation equipment to be installed in public housing facilities operated by JHA for the sum of \$487,000. The purchase price is payable in quarterly payments of principal and interest on each December 1, March 1, June 1 and September 1, commencing December 1, 2000 and ending on September 1, 2011. The interest rate is at 6.4169% with the annual payments of principal and interest at approximately \$62,500 per year.

Debt principal requirements for the ensuing five-year period are as follows:

<u>Fiscal Year</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
3/31/07	\$ 20,296.75	\$ 42,050.24	\$ 62,346.99
3/31/08	17,494.95	44,814.20	62,309.15
3/31/09	14,508.98	47,759.84	62,268.82
3/31/10	11,326.75	50,899.08	62,225.83
3/31/11	7,935.36	54,244.66	62,180.02
Thereafter	<u>5,048.69</u>	<u>87,634.94</u>	<u>92,683.63</u>
	<u>\$ 76,611.48</u>	<u>\$327,402.96</u>	<u>\$ 404,014.44</u>

#### **NOTE 7: OTHER INFORMATION**

##### **A. Pension Plan**

Each eligible employee is covered under a defined benefit plan through the City of Plan Ordinance of the City of Jackson. The Plan funds are invested with local bank pension plan managers. The Housing Commission and each employee contributes 2.5% of the employee's annual compensation. The Housing Commission's portion of the pension cost was \$43,748 during the fiscal year ended March 31, 2006. Further details of funding the pension assets are contained in a separate report with the City of Jackson.

##### **B. Current Vulnerability Due to Certain Concentrations**

The Housing Commission operates in a heavily regulated environment. The operations of the Housing Commission are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. Such changes may occur with little notice to inadequate funding to pay for the related cost, including the additional administrative burden to comply with a change.

### C. Risk Management and Litigation

The Housing Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters for which it obtains coverage from commercial companies. The Housing Commission has had no settled claims resulting from these risks that exceed their commercial coverage in the current year or the three prior fiscal years.

### D. Prior Period Adjustments, Equity Transfers and Correction of Errors

#### Low Rent Program

Note payable audit adjustment	\$ 25,334
Write off of stale checks-audit adjustment	19,011
Correction of prior year discretionary funds	<u>40,639</u>
	<u>\$ 84,984</u>

#### Capital Fund Program

Correction of prior year discretionary funds	<u>\$ ( 19,342)</u>
--	---------------------

#### Housing Choice Vouchers Program

Write off of stale checks-audit adjustments	<u>\$ ( 3,498)</u>
---	--------------------

### E. Post-Retirement Benefits Other Than Pensions

The Housing Commission has four(4) retired employees receiving health insurance benefits. The Housing Commission reimburses the City of Jackson for the costs.

### NOTE 8: SEGMENT INFORMATION

The Housing Commission maintains one Enterprise Fund that includes four separate programs which provide housing assistance and grant programs. Segment information for the year ended March 31, 2006, was as follows:

	<u>Low Rent Program</u>	<u>Capital Fund Program</u>	<u>Housing Choice Vouchers</u>
<b>Condensed Statement of Net Assets</b>			
Current assets	\$ 289,919	\$	\$ 312,487
Restricted cash			20,310
Property & equipment	<u>8,658,266</u>	<u>1,579,588</u>	
Total assets	<u>\$ 8,948,185</u>	<u>\$1,579,588</u>	<u>\$ 332,797</u>

	Low Rent Program	Capital Fund Program	Housing Choice Vouchers
Current liabilities	\$ 230,027	\$	\$ 46,775
Noncurrent liabilities	429,840		
Total liabilities	<u>659,867</u>		<u>46,775</u>
Net assets:			
Invested in capital assets, net of related debt	8,330,863	1,579,588	
Unrestricted net assets	( 42,545)		286,022
Total net assets	<u>8,288,318</u>	<u>1,579,588</u>	<u>286,022</u>
Total liabilities & net assets	<u>\$ 8,948,185</u>	<u>\$1,579,588</u>	<u>\$ 332,797</u>

**Condensed Statement of  
Revenues, Expenses,  
and Changes in Net  
Assets**

Dwelling and nondwelling rents	\$ 1,229,836	\$	\$
Depreciation	( 604,236)		
Other operating expenses	(2,413,451)		2,322,311
Operating (loss)	<u>(1,787,851)</u>		<u>(2,322,311)</u>
Nonoperating revenues:			
Investment earnings	2,807		3,306
Other income	63,484		
Operating grants	993,298	140,959	1,922,862
Capital grants		644,086	
Operating transfers	<u>140,959</u>	<u>( 140,959)</u>	
Change in net assets	( 587,303)	644,086	( 396,203)
Prior period adjustments	84,984	( 19,342)	( 3,498)
Beginning net assets	<u>8,790,637</u>	<u>954,844</u>	<u>685,723</u>
Ending net assets	<u>\$ 8,288,318</u>	<u>\$1,579,588</u>	<u>\$ 286,022</u>

**Condensed Statement  
of Cash Flows**

Net cash provided (used) by:			
Operating activities	\$ (1,350,660)	\$	\$ (2,319,735)
Noncapital financing activities	1,231,348	( 19,342)	2,309,447
Capital and related financing activities	( 26,299)	19,342	
Investing activities	<u>2,807</u>		<u>3,306</u>
Net increase (decrease)	<u>( 142,804)</u>		<u>( 6,982)</u>
Beginning cash and cash equivalents	<u>269,625</u>		<u>339,779</u>
Ending cash and cash equivalents	<u>\$ 126,821</u>	<u>\$</u>	<u>\$ 332,797</u>

SUPPLEMENTARY INFORMATION

JACKSON HOUSING COMMISSION  
COMBINING STATEMENT OF NET ASSETS  
March 31, 2006  
=====

C-3005  
Low Rent  
Program  
14.850

**ASSETS**

Current assets:

Cash	\$ 126,821
Accounts receivable-tenants	79,309
Allowance for doubtful accounts	( 7,579)
Prepaid expenses and other assets	64,903
Due from other programs	<u>26,465</u>

Total current assets	<u>289,919</u>
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Restricted cash

Property, plant, and equipment:

Buildings	20,453,219
Equipment	545,448
Construction in progress	<u>20,998,667</u>

Less accumulated depreciation	<u>(12,340,401)</u>
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Net property, plant and equipment	<u>8,658,266</u>
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Total Assets	<u><u>\$ 8,948,185</u></u>
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Capital Fund Program <u>14.872</u>	Housing Choice Vouchers <u>14.871</u>	<u>Totals</u>
\$	\$ 312,487	\$ 439,308
		79,309
		( 7,579)
		64,903
		<u>26,465</u>
	<u>312,487</u>	<u>602,406</u>
	<u>20,310</u>	<u>20,310</u>
	33,341	20,453,219
<u>1,579,588</u>		578,789
1,579,588	<u>33,341</u>	<u>1,579,588</u>
	( 33,341)	22,611,596
		<u>( 12,373,742)</u>
<u>1,579,588</u>		<u>10,237,854</u>
<u>\$1,579,588</u>	<u>\$ 332,797</u>	<u>\$ 10,860,570</u>

JACKSON HOUSING COMMISSION  
COMBINING STATEMENT OF NET ASSETS (CONTINUED)  
March 31, 2006  
=====

C-3005  
Low Rent  
Program  
14.850

**LIABILITIES and NET ASSETS**

Current liabilities:

Bank overdraft	\$ 74,008
Accounts payable	5,677
Tenant security deposit liability	88,630
Accrued expenses	15,674
Accrued liabilities-other	1,075
Deferred revenues	6,333
Current portion of long-term debt	38,630
Due to other programs	

Total current liabilities	<u>230,027</u>
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Noncurrent liabilities:

Long-term debt, net of current	288,773
Accrued compensated absences	<u>141,067</u>

Total noncurrent liabilities	<u>429,840</u>
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Total liabilities	<u>659,867</u>
-------------------	----------------

Net Assets:

Invested in capital assets, net of related debt	8,330,863
Unrestricted net assets	<u>( 42,545)</u>

Total net assets	<u>8,288,318</u>
------------------	------------------

Total Liabilities and Net Assets	<u>\$ 8,948,185</u>
----------------------------------	---------------------

Capital Fund Program <u>14.872</u>	Housing Choice Vouchers <u>14.871</u>	<u>Totals</u>
\$	\$	\$ 74,008
		5,677
		88,630
		15,674
	20,310	21,385
		6,333
		38,630
<u>          </u>	<u>26,465</u>	<u>26,465</u>
<u>          </u>	<u>46,775</u>	<u>276,802</u>
		288,773
<u>          </u>	<u>          </u>	<u>141,067</u>
<u>          </u>	<u>          </u>	<u>429,840</u>
<u>          </u>	<u>46,775</u>	<u>706,642</u>
1,579,588		9,910,451
<u>          </u>	<u>286,022</u>	<u>243,477</u>
<u>1,579,588</u>	<u>286,022</u>	<u>10,153,928</u>
<u>\$1,579,588</u>	<u>\$ 332,797</u>	<u>\$ 10,860,570</u>

JACKSON HOUSING COMMISSION  
**COMBINING STATEMENT OF REVENUES, EXPENSES,  
 AND CHANGES IN NET ASSETS**  
 Year Ended March 31, 2006

=====

	C-3005 Low Rent Program <u>14.850</u>
<b>OPERATING REVENUES:</b>	
Dwelling rent	\$ 1,219,780
Nondwelling rent	<u>10,056</u>
Total operating revenues	<u>1,229,836</u>
<b>OPERATING EXPENSES:</b>	
Administration	676,085
Tenant services	125,493
Utilities	458,993
Ordinary maintenance and operation	943,078
Protective services	8,987
General expenses	177,886
Interest expense	22,929
Housing assistance payments	
Depreciation	<u>604,236</u>
Total operating expenses	<u>3,017,687</u>
Operating income(loss)	<u>( 1,787,851)</u>
<b>NONOPERATING REVENUES:</b>	
Operating transfers in (out)	140,959
Investment interest income	2,807
Other income	63,484
Capital grants	
Operating grants	<u>993,298</u>
Total nonoperating revenues	<u>1,200,548</u>
Change in net assets	( 587,303)
Prior period adjustments, equity transfers and correction of errors	84,984
Net assets, beginning	<u>8,790,637</u>
Net assets, ending	<u>\$ 8,288,318</u>

Capital Fund Program <u>14.872</u>	Housing Choice Vouchers <u>14.871</u>	<u>Totals</u>
\$	\$	\$ 1,219,780
		<u>10,056</u>
		<u>1,229,836</u>
	268,887	944,972
		125,493
		458,993
		943,078
		8,987
		177,886
		22,929
	2,053,484	2,053,484
		<u>604,236</u>
	<u>2,322,371</u>	<u>5,340,058</u>
	<u>( 2,322,371)</u>	<u>( 4,110,222)</u>
( 140,959)		
	3,306	6,113
		63,484
644,086		644,086
<u>140,959</u>	<u>1,922,862</u>	<u>3,057,119</u>
<u>644,086</u>	<u>1,926,168</u>	<u>3,770,802</u>
644,086	( 396,203)	( 339,420)
( 19,342)	( 3,498)	62,144
<u>954,844</u>	<u>685,723</u>	<u>10,431,204</u>
<u>\$1,579,588</u>	<u>\$ 286,022</u>	<u>\$ 10,153,928</u>

JACKSON HOUSING COMMISSION  
**COMBINING STATEMENT OF CASH FLOWS**  
Year Ended March 31, 2006  
=====

	C-3005 Low Rent Program <u>14,850</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Cash received from dwelling and nondwelling rents	\$ 1,211,661
Cash payments to other suppliers of goods and services	( 1,115,929)
Cash payments to employees for services	( 1,330,975)
Cash payments for in lieu of taxes	<u>( 115,417)</u>
Net cash (used) by operating activities	<u>( 1,350,660)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>	
Adjustments	59,650
Tenant security deposits	( 19,427)
Due from/to other funds	( 6,616)
Operating transfers in(out)	140,959
Operating grants	993,298
Other revenue	<u>63,484</u>
Net cash provided(used) by noncapital financing activities	<u>1,231,348</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>	
Long-term debt principal payments	( 14,123)
Capital grants	
Payments for capital acquisitions	<u>( 12,176)</u>
Net cash provided(used) by capital and related financing activities	<u>( 26,299)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Receipts of interest and dividends	<u>2,807</u>
Net cash provided by investing activities	<u>2,807</u>
Net increase(decrease) in cash	( 142,804)
Cash, beginning	<u>269,625</u>
Cash, ending	<u><u>\$ 126,821</u></u>

Capital Fund Program <u>14.872</u>	Housing Choice Vouchers <u>14.871</u>	<u>Totals</u>
\$	\$	\$ 1,211,661
	( 2,099,726)	( 3,215,655)
	( 220,009)	( 1,550,984)
		( 115,417)
	( 2,319,735)	( 3,670,395)
( 19,342)	( 3,498)	36,810
	6,616	( 19,427)
( 140,959)		
140,959	2,306,329	3,440,586
		63,484
( 19,342)	2,309,447	3,521,453
644,086		( 14,123)
( 624,744)		644,086
		( 636,920)
19,342		( 6,957)
	3,306	6,113
	3,306	6,113
	( 6,982)	( 149,786)
	339,779	609,404
\$	\$ 332,797	\$ 459,618

JACKSON HOUSING COMMISSION  
**COMBINING STATEMENT OF CASH FLOWS (CONTINUED)**  
Year Ended March 31, 2006  
=====

C-3005  
Low Rent  
Program  
14.850

**RECONCILIATION OF CASH AND CASH  
EQUIVALENTS PER STATEMENT OF CASH  
FLOWS TO THE BALANCE SHEET:**

Cash	\$ 126,821
Restricted cash	<u>                    </u>
 Cash and cash equivalents per balance sheet	 <u><u>\$ 126,821</u></u>

**SCHEDULE RECONCILING OPERATING INCOME  
TO NET CASH FLOW FROM OPERATING  
ACTIVITIES:**

Operating income(loss)	\$( 1,787,851)
Adjustments to reconcile operating (loss) to net cash(used in) operating activities:	
Depreciation	604,236
Bad debt allowance	6,765
Changes in assets and liabilities:	
(Increase) decrease in assets:	
Accounts receivable-tenants	( 9,386)
Prepaid expenses	( 64,903)
Increase (decrease) in liabilities:	
Bank overdraft	25,183
Accounts payable	622
Accrued compensated absences	( 55,884)
Accrued payments in lieu of taxes	( 59,454)
Deferred revenues	( 8,789)
Other current liabilities	<u>( 1,199)</u>
 Net cash (used) by operating activities	 <u><u>\$( 1,350,660)</u></u>

Capital Fund Program <u>14.872</u>	Housing Choice Vouchers <u>14.871</u>	<u>Totals</u>
\$	\$ 312,487	\$ 439,308
<u>          </u>	<u>20,310</u>	<u>20,310</u>
<u><u>\$</u></u>	<u><u>\$ 332,797</u></u>	<u><u>\$ 459,618</u></u>
 \$	 \$( 2,322,371)	 \$( 4,110,222)
		604,236
		6,765
		( 9,386)
		( 64,903)
		25,183
		622
		( 55,884)
		( 59,454)
		( 8,789)
<u>          </u>	<u>2,636</u>	<u>1,437</u>
<u><u>\$</u></u>	<u><u>\$( 2,319,735)</u></u>	<u><u>\$( 3,670,395)</u></u>

JACKSON HOUSING COMMISSION  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**AND NOTES TO THE SCHEDULE OF FEDERAL AWARDS**  
Year Ended March 31, 2006

=====

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year	<u>Federal Grantor</u>	<u>CFDA No.</u>	<u>Expenditures</u>
	<u>U.S. Department of HUD</u>		
	<u>Public and Indian Housing Nonmajor - Direct Program</u>		
2006	Low Rent Public Housing	14.850	\$ 993,298
	<u>Public and Indian Housing Nonmajor - Direct Program</u>		
2006	Capital Fund Program	14.872	785,044
	<u>Low Income Public Housing Major - Direct Program</u>		
2006	Housing Choice Vouchers	14.871	<u>1,922,862</u>
	Total		<u>\$3,701,204</u>

NOTES TO THE SCHEDULE OF FEDERAL AWARDS

**NOTE 1: Significant Accounting Policies**

The schedule of federal awards has been prepared on the accrual basis of accounting.

CFDA = Catalog of Federal Domestic Assistance

## JACKSON HOUSING COMMISSION

## FINANCIAL DATA SCHEDULE

Year Ended March 31, 2006

=====

FDS Line Item No.		C-3005 Low Rent Program <u>14.850</u>
	<b>ASSETS</b>	
	Current Assets:	
	Cash:	
111	Cash-unrestricted	\$ 126,821
113	Cash-other restricted	<u>          </u>
100	Total cash	<u>126,821</u>
	Receivables:	
126	A/R-tenants-dwelling rents	79,309
126.1	Allowance for doubtful accounts	<u>( 7,579)</u>
120	Total receivables, net of allowance for doubtful accounts	<u>71,730</u>
	Other Current Assets:	
142	Prepaid expenses & other assets	64,903
144	Interprogram due from	<u>26,465</u>
	Total other current assets	<u>91,368</u>
150	Total current assets	<u>289,919</u>
	Noncurrent Assets:	
	Fixed Assets:	
162	Buildings	20,453,219
163	Furn, equip & mach-dwellings	282,947
164	Furn, equip & mach-admin.	262,501
166	Accumulated depreciation	(12,340,401)
167	Construction in progress	<u>          </u>
160	Total fixed assets, net of accumulated depreciation	<u>8,658,266</u>
180	Total noncurrent assets	<u>8,658,266</u>
190	Total Assets	<u>\$ 8,948,185</u>

Capital Fund Program 14.872	Housing Choice Vouchers 14.871	Totals
\$	\$ 312,487	\$ 439,308
	20,310	20,310
	332,797	459,618
		79,309
		( 7,579)
		71,730
		64,903
		26,465
		91,368
	332,797	622,716
		20,453,219
		282,947
	33,341	295,842
	( 33,341)	(12,373,742)
1,579,588		1,579,588
1,579,588		10,237,854
1,579,588		10,237,854
\$1,579,588	\$ 332,797	\$ 10,860,570

JACKSON HOUSING COMMISSION  
**FINANCIAL DATA SCHEDULE (CONTINUED)**  
Year Ended March 31, 2006  
=====

FDS Line Item No.		C-3005 Low Rent Program <u>14.850</u>
<b>LIABILITIES and NET ASSETS</b>		
	Liabilities:	
	Current Liabilities:	
311	Bank overdraft	\$ 74,008
312	Accounts payable<=90 days	5,677
322	Accrued compensated absences	15,673
333	Accrued interest payable	1
341	Tenant security deposits	88,630
342	Deferred revenues	6,333
343	Current portion of long-term debt	38,630
346	Accrued liabilities-other	1,075
347	Interprogram due to	<u>          </u>
310	Total current liabilities	<u>230,027</u>
	Noncurrent Liabilities:	
351	Long-term debt, net of current	288,773
354	Accrued compensated absences	<u>141,067</u>
350	Total noncurrent liabilities	<u>429,840</u>
300	Total liabilities	<u>659,867</u>
	Net Assets:	
508.1	Invested in capital assets, net of related debt	8,330,863
512.1	Unrestricted net assets	<u>( 42,545)</u>
513	Total Net Assets	<u>8,288,318</u>
600	Total Liabilities and Net Assets	<u>\$ 8,948,185</u>

Capital Fund Program <u>14.872</u>	Housing Choice Vouchers <u>14.871</u>	<u>Total</u>
\$	\$	\$ 74,008
		5,677
		15,673
		1
		88,630
		6,333
		38,630
	20,310	21,385
<u>          </u>	<u>26,465</u>	<u>26,465</u>
<u>          </u>	<u>46,775</u>	<u>276,802</u>
		288,773
<u>          </u>	<u>          </u>	<u>141,067</u>
<u>          </u>	<u>          </u>	<u>429,840</u>
<u>          </u>	<u>46,775</u>	<u>706,642</u>
1,579,588		9,910,451
<u>          </u>	<u>286,022</u>	<u>243,477</u>
<u>1,579,588</u>	<u>286,022</u>	<u>10,153,928</u>
<u>\$1,579,588</u>	<u>\$ 332,797</u>	<u>\$ 10,860,570</u>

JACKSON HOUSING COMMISSION  
**FINANCIAL DATA SCHEDULE (CONTINUED)**  
Year Ended March 31, 2006

=====

FDS Line Item No.		C-3005 Low Rent Program <u>14.850</u>
	<b>Revenue:</b>	
703	Net tenant rental revenue	\$ 1,219,780
704	Tenant revenue-other	<u>10,056</u>
705	Total tenant revenue	1,229,836
706	HUD PHA grants	993,298
706.1	Capital grants	
711	Investment income-unrestricted	2,807
715	Other revenue	<u>63,484</u>
700	Total revenue	<u>2,289,425</u>
	<b>Expenses:</b>	
	Administrative:	
911	Administrative salaries	367,426
912	Auditing fees	4,650
914	Compensated absences	( 55,883)
915	Employee benefit contributions	169,697
916	Other operating-administrative	190,195
	Tenant Services:	
921	Tenant services-salaries	68,799
923	Employee benefit contributions	32,323
924	Tenant services-other	24,371
	Utilities:	
931	Water	132,547
932	Electricity	174,308
933	Gas	152,138
	Ordinary maintenance and operation:	
941	Ordinary maint & oper-labor	434,826
942	Ordinary maint & oper-mat'ls & other	117,977
943	Ordinary maint & oper-contract costs	188,255
945	Employee benefit contributions	202,020
953	Protective services-other	8,987
	General expenses:	
961	Insurance premiums	107,579
963	Payments in lieu of taxes	55,963
964	Bad debt - tenant rents	14,344
967	Interest expense	<u>22,929</u>
969	Total operating expenses	<u>2,413,451</u>

Capital Fund Program 14.872	Housing Choice Vouchers 14.871	Total
\$	\$	\$ 1,219,780
		10,056
		1,229,836
140,959	1,922,862	3,057,119
644,086		644,086
	3,306	6,113
		63,484
<u>785,045</u>	<u>1,926,168</u>	<u>5,000,638</u>
	169,986	537,412
		4,650
		( 55,883)
	50,023	219,720
	48,878	239,073
		68,799
		32,323
		24,371
		132,547
		174,308
		152,138
		434,826
		117,977
		188,255
		202,020
		8,987
		107,579
		55,963
		14,344
		<u>22,929</u>
	<u>268,887</u>	<u>2,682,338</u>

JACKSON HOUSING COMMISSION  
**FINANCIAL DATA SCHEDULE (CONTINUED)**  
 Year Ended March 31, 2006  
 =====

FDS Line Item No.		C-3005 Low Rent Program <u>14.850</u>
970	Excess operating revenue over operating expenses	( <u>124,026</u> )
	<b>Expenses continued:</b>	
	Other expenses:	
973	Housing assistance payments	
974	Depreciation expense	<u>604,236</u>
	Total other expenses	<u>604,236</u>
900	Total expenses	<u>3,017,687</u>
	Excess (deficiency) of operating revenue over(under) expenses before other financing sources (uses)	( 728,262)
	<b>Other Financing Sources(Uses):</b>	
1001	Operating transfers in (out)	<u>140,959</u>
1000	Excess (deficiency) of operating revenue over(under) expenses	( 587,303)
1103	Beginning Net Assets	8,790,637
1104	Prior period adjustments, equity transfers and correction of errors	<u>84,984</u>
	Ending Net Assets	<u>\$ 8,288,318</u>

Capital Fund Program <u>14.872</u>	Housing Choice Vouchers <u>14.871</u>	<u>Totals</u>
<u>785,045</u>	<u>1,657,281</u>	<u>2,318,300</u>
	2,053,484	2,053,484
		<u>604,236</u>
	<u>2,053,484</u>	<u>2,657,720</u>
	<u>2,322,371</u>	<u>5,340,058</u>
785,045	( 396,203)	( 339,420)
<u>( 140,959)</u>		
644,086	( 396,203)	( 339,420)
954,844	685,723	10,431,204
<u>( 19,342)</u>	<u>( 3,498)</u>	<u>62,144</u>
<u>\$ 1,579,588</u>	<u>\$ 286,022</u>	<u>\$ 10,153,928</u>

**Barry E. Gaudette, CPA, P.C.**

CERTIFIED PUBLIC ACCOUNTANT

1107 East Eighth Street  
Traverse City, Michigan 49686  
(231) 946-8930  
Fax (231) 946-1377

**Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters Based on an  
Audit of Financial Statements Performed in Accordance  
with Government Auditing Standards**

Board of Housing Commissioners  
Jackson Housing Commission  
Jackson, Michigan

I have audited the financial statements of the business-type activities of the Jackson Housing Commission, Michigan, (Housing Commission) as of and for the year ended March 31, 2006, which collectively comprise the Housing Commission's basic financial statements and have issued my report thereon dated September 25, 2006. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing my audit, I considered the Housing Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Housing Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on

Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters Based on an  
Audit of Financial Statements Performed in Accordance  
with *Government Auditing Standards*  
Jackson Housing Commission  
Page Two

**Compliance and Other Matters (continued)**

compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, I noted certain matters that I reported to management of the Housing Commission, in a separate letter dated September 25, 2006.

This report is intended solely for the information and use of the audit committee, management, Board of Housing Commissioners, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Sam E. Faudett, CPA, PC*

September 25, 2006

**Report on Compliance with Requirements  
Applicable To Each Major Program and  
Internal Control over Compliance  
in Accordance with OMB Circular A-133**

Board of Housing Commissioners  
Jackson Housing Commission  
Jackson, Michigan

**Compliance**

I have audited the compliance of the Jackson Housing Commission , Michigan, (Housing Commission) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended March 31, 2006. The Housing Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Housing Commission's management. My responsibility is to express an opinion on the Housing Commission's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Housing Commission's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of the Housing Commission's compliance with those requirements.

Report on Compliance with Requirements  
Applicable to Each Major Program and  
Internal Control Over Compliance in  
Accordance with OMB Circular A-133  
Jackson Housing Commission  
Page Two

**Compliance (continued)**

In my opinion, the Housing Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended March 31, 2006.

**Internal Control Over Compliance**

The management of the Housing Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered the Housing Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over compliance and its operation that I consider to be material weaknesses. I have noted other matters involving the internal control over financial reporting that I have reported to management of the Housing Commission in a separate letter dated September 25, 2006.

This report is intended solely for the information and use of the audit committee, management, Board of Housing Commissioners, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Benny E. Sandlett, CPA, PC*

September 25, 2006

JACKSON HOUSING COMMISSION  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
 March 31, 2006  
 =====

**A. Summary of Audit Results**

Financial Statements

1. Type of Auditor's Report issued: Unqualified
2. Internal control over financial reporting:
  - a. Material weakness identified No
  - b. Reportable condition identified that is not a material weakness No
3. Noncompliance material to financial statements: No

Federal Awards

1. Internal control over major programs:
  - a. Material weakness identified No
  - b. Reportable condition that is not a material weakness No
2. Type of auditor's report issued on compliance for major programs Unqualified
3. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133 No
4. Identification of major programs:

<u>CFDA Number</u>	<u>Federal Program</u>	<u>Amount Expended</u>	<u>Major Program</u>	<u>Compliance Requirement</u>	<u>Questioned Costs</u>	<u>Audit Finding</u>
14.850	Low Rent Public Housing	\$ 993,298	No	O	N/A	N/A
14.872	Capital Fund Program	785,044	No	O	N/A	N/A
14.871	Housing Choice Vouchers	<u>1,922,862</u>	Yes	O	N/A	N/A
<b>Total</b>		<u><b>\$3,701,204</b></u>				

5. Dollar threshold used to distinguish between type A and type B programs \$300,000
6. Auditee qualified as low-risk auditee? Yes

JACKSON HOUSING COMMISSION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
March 31, 2006

=====

B.	Financial Statement Findings	None
C.	Federal Award Findings and Questioned Costs	None

JACKSON HOUSING COMMISSION  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
March 31, 2006  
=====

NONE

JACKSON HOUSING COMMISSION  
ADJUSTING JOURNAL ENTRIES  
MARCH 31, 2006

=====

<u>FDS</u>				
<u>Line Number</u>	<u>Account Name</u>	<u>Debit</u>	<u>Credit</u>	
LOW RENT PROGRAM:				
		(1)		
111	Cash-unrestricted	\$ 74,008		
311	Bank overdraft		\$ 74,008	

JACKSON HOUSING COMMISSION

INDEPENDENT AUDITORS' REPORTS  
ON COMMUNICATIONS WITH THE  
AUDIT COMMITTEE/BOARD OF COMMISSIONERS  
AND  
MANAGEMENT ADVISORY COMMENTS

MARCH 31, 2006

## Auditing Procedures Report

Issued under P.A. 2 of 1966, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other				Local Unit Name Jackson Housing Commission		County Jackson	
Fiscal Year End March 31, 2006		Opinion Date September 25, 2006		Date Audit Report Submitted to State November 11, 2006			

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

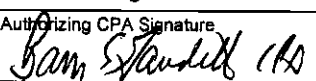
5  
11  
2

**Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☒ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☒ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>		Enclosed	Not Required (enter a brief justification)	
Financial Statements		<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations		<input checked="" type="checkbox"/>		
Other (Describe)		<input checked="" type="checkbox"/>	Internal Control and Compliance Letters	
Certified Public Accountant (Firm Name) Barry E. Gaudette, CPA, PC			Telephone Number (231) 946-8930	
Street Address 1107 E. Eighth Street			City Traverse City	State MI
			Zip 49686	
Authorizing CPA Signature 		Printed Name Barry E. Gaudette, CPA		License Number 11050

**JACKSON HOUSING COMMISSION**  
**CONTENTS**  
**MARCH 31, 2006**

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**INDEPENDENT AUDITORS' REPORT ON  
COMMUNICATIONS WITH THE AUDIT COMMITTEE/  
BOARD OF COMMISSIONERS**

To the Board of Commissioners  
Jackson Housing Commission

I have audited the financial statements of the Jackson Housing Commission ("Housing Commission") as of and for the year ended March 31, 2006, and have issued my report, thereon, dated September 25, 2006. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I communicate certain matters to your audit committee or its equivalent. These communications are reported in the following paragraphs.

**Auditors' Responsibilities Under Auditing Standards Generally Accepted in the United States of America** - In planning and performing my audit of the financial statements, I considered your internal control in order to determine my auditing procedures for purposes of expressing my opinion on the financial statements and not to provide assurance on your internal control. Also, an audit conducted under auditing standards generally accepted in the United States of America is designed to obtain a reasonable, rather than absolute, assurance about the financial statements.

**Significant Accounting Policies** - The significant accounting policies used in the preparation of your financial statements are discussed in Note 1 to the financial statements. There was one audit adjusting journal entry, but no controversial accounting issues.

**Management Judgments and Accounting Estimates** - Significant management judgments and accounting estimates are disclosed in the notes to the financial statements.

**Other Information in Documents Containing Audited Financial Statements** - All the information included in the financial statements document has been audited and my responsibilities are addressed in the Independent Auditors' Report.

**INDEPENDENT AUDITORS' REPORT ON COMMUNICATIONS WITH THE  
AUDIT COMMITTEE - CONTINUED**

**Audit Adjustments** - For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in my judgment, may not have been detected except through my auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Housing Commission's financial reporting process (that is, cause future financial statements to be materially misstated). The attached audit adjustments, in my judgment, indicate matters that could have a significant effect on the Housing Commission's financial reporting process (see adjusting entries on page 6).

**Disagreements With Management** - For purposes of this letter, professional accounting standards define disagreement with management as a matter concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. I am pleased to report that no such disagreements arose during the audit.

**Consultations With Other Accountants** - To my knowledge, management has not consulted with other accountants regarding auditing and accounting matters.

**Major Issues Discussed With Management Prior to Retention** - There were no discussions regarding the application of accounting principles or auditing standards with management prior to my retention as your auditor.

**Difficulties Encountered in Performing the Audit** - There were no difficulties encountered in performing the audit. The staff was very cooperative and helpful.

This report is intended solely for the information and use of the audit committee or its equivalent and management and is not intended to be and should not be used by anyone other than these specified parties.

I shall be pleased to discuss any of the matters referred to in this letter. Should you desire more information on the above communications, I would welcome the opportunity to discuss them with you.

*Barry E. Vandell, CPA, PC*

September 25, 2006

**INDEPENDENT AUDITORS' REPORT ON  
MANAGEMENT ADVISORY COMMENTS**

To the Board of Commissioners  
Jackson Housing Commission

I have audited the financial statements of the Jackson Housing Commission ("Housing Commission") as of and for the year ended March 31, 2006, and have issued my report, thereon, dated September 25, 2006. I have also issued compliance reports and reports on the internal control in accordance with *Government Auditing Standards*. These reports disclosed no material instances of noncompliance, weaknesses and reportable conditions.

Other matters involving the Housing Commission's operations and internal control, which came to my attention during the audit, are reported on the following pages as management advisory comments.

I would like to take this opportunity to acknowledge the many courtesies extended to me by the Housing Commission's personnel during the course of my work.

I shall be pleased to discuss any of the matters referred to in this letter. Should you desire assistance in implementing any of the following suggestions, I would welcome the opportunity of assisting you in these matters.

*Barry E. Gaudette, CPA, P.C.*

September 25, 2006

JACKSON HOUSING COMMISSION  
MANAGEMENT ADVISORY COMMENTS  
March 31, 2006  
=====

**Invoice Approval**

The Housing Commission has good internal controls for paying invoices and the disbursements are made on a weekly basis.

The Michigan Department of Treasury requires that all disbursements must be approved by the Board prior to disbursement unless addressed otherwise in the charter. The legislative body may establish a formal policy to authorize payments prior to approval to avoid finance or late charges and to pay appropriated amounts and payroll (including related payroll taxes and withholdings). This policy must be very limited and a list of payments made prior to approval must be presented to the legislative body for approval.

I recommend that the Housing Commission adopt a check writing policy.

**Unauthorized Expenditures**

***Flowers***

The Housing Commission has on occasion purchased **flowers** for individuals that have a sickness.

The Michigan Department of Treasury and the Federal Government considers buying flowers, using Housing Commission funds, to the sick or departed to be an unauthorized expenditure.

**Hand Written Checks**

The Housing Commission uses hand written checks to pay bills.

I recommend the Housing Commission consider purchasing check writing software to improve internal controls in the disbursement of invoices.

**Leave Time**

The Housing Commission, as of March 31, 2006, had an employee that was off for a sickness, but had no leave time available. The time was made up in the next pay period.

I recommend the Housing Commission follow its' own policy and not pay an employee wages when there is not any leave time available.

JACKSON HOUSING COMMISSION  
MANAGEMENT ADVISORY COMMENTS  
March 31, 2006  
=====

**Tenant Files**

We selected 15 tenant files from the Low Rent Program and 14 tenant files from the Housing Choice Voucher Program. The Housing Choice Voucher tenant files were, for the most part, in good order. The Low Rent tenant files at Reed Manor and Shahan-Blackstone North were, for the most part, in good order. The Low Rent tenant files at Chalet Terrace were not always in complete order.

I recommend the tenant files be periodically reviewed at the Chalet Terrace units by another staff member.

JACKSON HOUSING COMMISSION  
**ADJUSTING JOURNAL ENTRIES**  
 March 31, 2006  
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FDS <u>Line Number</u>	<u>Account Name</u>	<u>Debit</u>	<u>Credit</u>
<b>LOW RENT PROGRAM</b>			
		(1)	
111	Cash-unrestricted	\$ 74,008	
311	Bank overdraft		\$ 74,008